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INTELLIGENCE HIGHLIGHTS NO. 57
22 June - 28 June 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

While French and Indochinese reaction to the US statement in support of Vietnam has been mostly favorable, as was expected, the lack of response from other Asian areas reflects the general doubt felt regarding both French intentions and Bao Dai's chances of success (p. 2).

Japanese Communist strategy appears to be increasingly aggressive and the JCP's autumn "offensive" may well be marked by violence (p. 3).

The arrest of alleged Communist-sympathizers among Republican Assemblymen in Korea is expected to result in a test of President Rhee's strength when the Assembly reconvenes on 1 July (p. 4).

The National Government's "blockade" of Shanghai threatens that major Chinese port with industrial paralysis (p. 5). Meanwhile labor agitation among the employees of foreign firms in that city appears to be without the support of Communist administration authorities (p. 6).

Recent Burmese Government moves towards better relations with the West have received the acquiescence, if not hearty approval, of the Socialists who constitute a majority in Parliament (p. 8).

Progressive steps towards a solution of the problems in Indonesia seem to be continuing smoothly, with Republican restoration to Jogjakarta as the next move scheduled (p. 9).

The Australian Labor Government is facing a major political and economic crisis as a result of a severe mid-winter coal shortage, capped this week by a strike on the part of 24,000 miners (p. 9).

The marginal notations used in succeeding sections of this Weekly ("A", "B", "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Reaction to the US statement on Vietnam--The Department of State's 21 June press release approving the new unified state of Vietnam recently established by Emperor Bao Dai has received little support or publicity outside of France and Indochina. In both Hanoi and Saigon, favorable full coverage was given, with the exception of one anti-US French journal in Saigon. French High Commissioner Pignon stated in response that "it is comforting for us to know that this great country understands our reasons and intentions." The influential editor of "Echo du Vietnam", himself apparently slated for a Bao Dai cabinet post, deduced that the US approval meant recognition of the future government, support of Vietnam's admission to the UN, and a favorable future attitude towards the exchange of ambassadors between the US and Vietnam. The editor predicts a brilliant and prosperous future for a unified and "independent" Vietnam, "over whose cradle the US leans with friendly sympathy." Bao Dai's spokesman, Prince Buu Loc, expressed thanks to the US Government for the interest shown in the new unified state and indicated that Bao Dai found real encouragement in the support from the US. As yet there has been no comment on the statement from the Ho Chi Minh-controlled areas of Vietnam. "A"

The statement was given wide press publicity in Paris, where it was interpreted as not only favoring Bao Dai against Ho Chi Minh but as the first US endorsement of French policy in Indochina in four years.

In contrast to this favorable reception in both Indochina and Paris, issuance of the US statement attracted practically no attention in Great Britain, where only the Manchester Guardian carried a short news dispatch from Washington. There has been no editorial comment on the subject and the news section of the Foreign Office has issued no statement of any kind. In India, the press gave very little attention to the statement and so far the Indian Government has made no comment.

The Burmese, Thai, and Philippine Governments have thus far expressed no opinion on the question of US support for Bao Dai. While this cautious attitude by Far Eastern countries was anticipated, the general lack of approval for the US position obviously does not improve Bao Dai's chances for success. This international reaction is an indication of the widespread lack of faith in both French intentions and the Bao Dai experiment.

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JAPAN

Communist policy now favors violence--Japan Communist Party (JCP) strategy, based on the concept of "peaceful revolution" since the 1947 party congress, appears to have been altered recently in favor of violence. A recent Politburo directive stated "All struggles are now meaningless unless they are struggles against the regime in power." "Each struggle," said the directive, "will emphasize that the choice is between a democratic people's government (in other words, seizure of power by the people) and annihilation." "B"

In the light of this directive, statements during the last fortnight by two JCP leaders are of interest. NOZAKA Sanzo, second-ranking Japanese Communist, has expressed confidence that the Yoshida Cabinet will collapse this summer because of intensified labor offensives and economic difficulties, while JCP Secretary-General TOKUDA Kyuichi has demanded Communist participation in the "democratic" coalition Cabinet that he claims will succeed the Yoshida government.

JCP efforts to entice the Socialists into "democratic racial front" action has not been successful to date except under isolated and local conditions. Although the mass firings, provided for by the US economic stabilization program, may put the Socialists between the upper and nether millstones of Government policy and Labor-JCP pressure and force Socialist action parallel to the JCP, the "democratic" coalition government, envisioned by TOKUDA, is by no means an immediate prospect.

It may be expected that coming Communist "struggle" activities will entail considerably more violence than has been the case during the last 18-20 months. It is anticipated, however, that the JCP will not push its autumn "offensive" to such extents as to risk strong suppressive action by Occupation forces. The JCP's demand for an "early" peace treaty, with its implied evacuation of US Occupation forces, may therefore be considered from two viewpoints. Besides having wide popular appeal, since most Japanese believe that a peace treaty is a magic panacea for all present national ills, such an action would remove the major obstacle to JCP violence.

Exports in Serious Slump--A 50% drop in new export contracts since April is causing serious concern in Japan. At a time when the effects of economic retrenchment as a result of the US-sponsored nine-point economic rehabilitation program are already severe, the implications of reduced foreign trade are extensive. "C"

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Various factors are contributing to the slump. The establishment of a single exchange rate last April caused many foreign buyers either to cancel contracts or to "wait and see", in the hope that prices of Japanese exports favored by the exchange rate would be reduced. Japanese manufacturers who were not favored by the new rate, in turn, have focused their attentions to domestic rather than export markets. Depressed world prices, recent import restrictions by dollar-short countries, unsettled political conditions in Southeast Asia, rumors of sterling devaluation and increased competition from the reviving ERP countries are also contributing factors.

Japan's fiscal 1949-50 export goal is set at \$611 million. Exports under much more favorable conditions during the last fiscal year came to roughly \$400 million. Hence, unless external political and economic conditions improve, Japan is destined to face even more stringent austerity than had been anticipated as a result of the US rehabilitation program. Decreased foreign trade, together with increased unemployment and weakened recovery prospects will provide additional sources of insecurity and discontent in Japan which the JCP can exploit in the autumn "offensive".

KOREA

Vice-chairman of National Assembly arrested--Kim Yak Soo, vice-Chairman of the Republic's National Assembly was arrested by Seoul police on 25 June. With his arrest, it appears that the round-up of Assemblymen allegedly cooperating with the Communists has been completed for the time being. President Rhee contends that the police have evidence linking Kim Yak Soo and his followers with northern Korean Communist agents and he says the arrests were necessary to nip Communist plots in the bud. Assemblymen may feel, however, that Rhee is simply attempting to break Kim's organized Assembly opposition to the Government, which has developed sufficient strength to threaten Rhee's power seriously. "B"

The arrest of 10 Assemblymen, including the vice-speaker, within a period of a few weeks can be expected to precipitate another severe crisis in Assembly-Executive relations. The first test will come when the Assembly convenes for a special session on 1 July. If Rhee is able to convince the Assembly that he has a real case against Kim Yak Soo, the inevitable motion to release the arrested men for the duration of the special session may be defeated, allowing Rhee to emerge in a strong position, with much of his effective opposition silenced. If Rhee loses on this first test, however, the Assembly may then proceed to take drastic action to curtail the President's powers.

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Kim Koo Assassinated--The former President of the Provisional Korean Government in China, Kim Koo, an almost legendary figure in Korea for his acts of terrorism against the Japanese, was shot to death in his home in Seoul on 26 June. It appears that Kim was assassinated by a member of his own Korean Independence Party, one Lieutenant An Duhi. The motive is obscure, but the killing probably arose from differences of opinion within Kim Koo's own following as to the proper policy toward unification and support of the Republic of Korea. "C"

Kim Koo, who alienated much of his popular following through suspected complicity in the assassination of rightist politician Chang Duk Soo in December 1947, lost additional support from close followers by his refusal to support the government of the Republic of Korea. Kim had maintained that the establishment of the Republic only served to prolong the division of Korea. Even after the fiasco of his trip to the northern puppet capital of Pyongyang in the spring of 1948, he maintained that unification must be achieved by sincere consultation of leaders from north and south. It is possible that Kim dreamed of a military coup, using his followers in the Republic's Army to gain power in the south as a preliminary step toward unification, and that his killing was the result of Lt. An's objection to such an attempt.

Kim's assassination could result in violent reprisals against members of the Republic's government if there were any hint that Rhee or other officials were implicated. The "national funeral" ordered by the Cabinet for Kim may be the occasion for some demonstrations against the government. It appears, however, that Rhee is in the clear and, in the long run, Kim's death may serve to unify the Republic further in its stand against Communist pressure.

CHINA

Shanghai faces paralysis--As a result of Nationalist naval and air activity, "A" as well as a rumor that the entrance to the Yangtze River had been mined, foreign shipping activities in Shanghai have come to a virtual halt. The Nationalists, observing that "hysteria" over the alleged mining had effectively closed the port of Shanghai, evidently stumbled on a legally "correct" method of strangling Shanghai without instituting an official blockade. The Canton Government announced all ports from Foochow north to Manchuria

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would be "temporarily closed" to foreign air and sea traffice.

While the Nationalists are incapable of effectively blockading the entire "closed" area, their naval and air forces are adequate for limited patrol action and probably will be able to isolate Shanghai effectively. Few foreign vessels are likely to risk the danger of entering the port under threat of Nationalist attack and the Communists themselves possess few vessels capable of running the "blockade." Six American ships already have dropped Shanghai as a port of call and all foreign vessels in port left before Canton's announced closure deadline. Except for some avaricious Hong Kong shippers who will run blockades for anyone, as well as a few small Communist vessels, the port of Shanghai probably will remain closed for some time.

Although the Communists can supply Shanghai with enough food for its 6,000,000 people, an effective blockade of the port will seriously reduce the output of the city's industries within a month. Shanghai's fuel imports--normally 125,000 tons of coal and 35,000 tons of fuel oil per month--will be suspended except for an inadequate trickle of inland coal. This will force utilities to curtail their services or close down. Chemicals, rubber, metal and other raw materials vital to Shanghai's industries, moreover, are not available for domestic sources. It is probable therefore, that Shanghai will be economically paralyzed by a continued blockade.

Foreign firm employees agitate--Labor agitation, directed at several foreign firms, has been evident in Shanghai scene since the Communist takeover. A dispute involving Caltex appears typical. After locking the front doors of the building, Chinese employees marched up and down the office corridors while the executives barricaded themselves in their offices. By the end of the day, the company yielded to substantially all the workers' demands.

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Other foreign firms which have been the victims of labor agitation include China Edison, Butterfield and Swire, and Shanghai Tramways. The American-owned Shanghai Evening Post and Mercury submitted to pay demands after an invasion by workers and confinement of officials to their offices but suspended publication when the workers refused to allow editor Gould to print his version of the incident.

Although the attitude of the workers has been menacing at times, the incidents thus far have not been marred by personal violence or serious property damage. It is quite likely that the unrest will subside as the Communist authorities impress on labor unions their increased "responsibilities" under the new regime. Recent developments in a dispute involving Standard Vacuum offer an indication of the official CCP attitude in this connection. After the usual siege of the company offices, a Communist army officer appeared and dispersed the workers, stating that they were making their demands in the wrong way and should complain instead to the Labor Bureau of the Military Control Commission. The manager of the company was assured that law-abiding foreigners would be protected and that company executives need have no fear of mob violence.

Education and the 'New Democracy'--CCP authorities in recent months have been seizing opportunities to use educational media for the propagation of 'New Democracy'. CCP leaders, addressing the Congress of the Chinese New Democratic Youth League in April, stated that youth must be mobilized to take part in the rehabilitation of industry and agriculture, and that the League is to be an organization of the "youth masses", in which education in Marxism-Leninism is to be carried out systematically. In May, top officials of the North China People's Government, explaining the educational aims of 'New Democracy', stated that the educational system should be reviewed and a more centralized system established. In mid-June, Shanghai authorities announced principles for revision of school texts, to conform with the principles of 'New Democracy'. Revised texts must be anti-imperialist, anti-feudalist, anti-bureaucratic capitalist, must not oppose the world democratic (Communist) movement, and should also be scientific and materialistic.

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Recent official statements on education indicate that the CCP is pursuing a policy of gradual reform during the present military period. Required curriculum revisions do not extend beyond substitution of courses on 'New Democracy' for the "reactionary" courses in Sun Min Chu I and Kuomintang principles. Private schools and "scientific and progressive" foreign schools are to receive full protection. The Communists have been

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careful not to interfere with the teaching of technical subjects needed for rehabilitation of industry and agriculture. Officials of the American missionary-supported Peiping Union Medical College, for example, have expressed satisfaction regarding their relations with Peiping authorities. In Shanghai, while liberal arts and business students are under pressure to join the People's Liberation Army, medical, scientific, engineering and agricultural students, in contrast, are urged to "intensify their studies."

BURMA

Shift towards West okayed by Socialists--The Burmese Government's recent decision to relax its extreme socialist program and seek closer relations with the West has now been approved by the Socialist-dominated Parliament. The Government-sponsored Minerals Bill (which is designed to encourage the influx of foreign capital) was passed by Parliament with only relatively minor and reasonable amendments. In addition, the Socialists did not reject the Government's recommendation that Burma enter into mutually beneficial treaties with countries having "common interests," although they advocated following a "middle path" and warned against binding Burma to any power bloc. In order to calm Socialist apprehensions, the Government gave its assurance that party leaders would be consulted on all major issues and that no treaty would be concluded without parliamentary consent. It is quite likely that this guarantee is acceptable to the Socialists -- at least for the present.

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The mild Socialist reaction is an encouraging indication that no serious breach between the Burmese Government and Parliament has developed and that none is imminent. Continued Socialist support in Parliament, however, will be dependent upon the maintenance of the Government's spirit of compromise and its circumspection in advancing and implementing the new policy.

NEWS NOTE

Dissatisfaction among the Shan and Kachin ethnic minorities is becoming increasingly evident. Shan members of Parliament are absent from the current session in Rangoon and are holding a meeting of their own at Taunggyi, capital of the Shan States. The Kachins desire the return of Kachin military personnel in the Burmese Army from southern Burma to guard the Yunnan border, while Shan leaders are seeking arms for their personal armies not only for border defense duty but also to repel incursions by Burmese Communists and the PVO.

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INDONESIA

Implementation of Batavia agreement progresses favorably--At a formal meeting under the auspices of the UN Commission for Indonesia on 22 June, all parties to the Indonesian dispute expressed satisfaction over the outcome of the preliminary negotiations just concluded at Batavia and tangible results of Dutch acquiescence to restoration of the Republican Government to the Jogjakarta Residency are already apparent.

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Evacuation of all civilians desiring to leave the Republican capital was completed early in June and Dutch troop withdrawals, begun on 24 June, are expected to be completed by the end of the month. Republican officials are preparing to return to Jogja during the first week in July, and the Republican Cabinet and Parliament will review commitments already made by the Republican Delegation at Batavia and approved by Premier Hatta. Final decisions by the Republican Government regarding a "cease-fire" order and other related matters are expected to be reached about 20 July.

During the next few weeks, therefore, Republican officials will be faced with the problem of consolidating popular political support and of restoring law and order in their territory. If these tasks are successfully executed, Republicans, Federalists and representatives of the UN Commission for Indonesia will proceed to The Hague to attend a Netherlands-sponsored round-table conference at which they will consider plans for the transfer of Netherlands sovereignty to a federated United States of Indonesia.

Military observers in the field are optimistic over Republican ability to restore and maintain law and order. They feel that the majority of army units, including groups of fanatic Moslems in the Residency, will obey military orders issued by the Sultan of Jogjakarta. Cooperation between Republican and Dutch forces in carrying out the cease-fire order will be more difficult, but President Sukarno has expressed confidence that he will be able to control the TNI throughout Java and Sumatra.

AUSTRALIA

Labor Government faces coal strike crisis--Australia's chronic coal deficiency, presently at a famine level, has become a critical problem

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as a result of the strike of 24,000 coal miners for higher wages and shorter hours on 27 June. A complex combination of factors lies behind the Australian coal problem. One basic cause is the reluctance of Australian miners to increase or maintain adequate production through their traditional fear of losing bargaining strength through the accumulation of coal surpluses. Unsatisfactory working conditions and Communist-inspired slow-downs, together with recent floods, have also combined to retard coal production. The mid-winter strike, while the miners' demands were in the process of arbitration, has presented the Labor Government with a major crisis.

Thousands in industries dependent on coal are already out of work and it is likely that unemployment will increase as the Australian economy, in which coal is virtually the only source of power, becomes paralyzed. Internal transportation has slowed down and state governments have been forced to institute industrial and domestic electricity and fuel rationing. The Labor Government, thus faced with a major political and economic problem in an election year, insists that the miners should return to work and await the outcome of Federal arbitration. To prevent sympathetic support of the miners by other trade unions, the Attorney General plans to introduce legislation prohibiting contributions from union funds. Should the Labor Government's insistence on arbitration fail and the general paralysis of Australian industry and commerce continue, the attendant loss of prestige in an election year is likely to have serious repercussions.

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